

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 IO-11 ISO-00 AID-05 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

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SS-15 STR-04 CEA-01 PA-02 PRS-01 /113 W

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 2045

INFO AMEMBASSY BONN

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AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

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AMCONSUL ZURICH UNN

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF JANUARY 18-24

1. SUMMARY: DESPITE THE CLOSURE OF THE ITALIAN EXCHANGE MARKET AND DOLLAR SALES BY THE FRENCH NATIONAL BANK, THE FOREIGN EXCHANGE MARKET WAS QUIET AND RATES WERE RELATIVELY STABLE THIS WEEK; GOLD TRADING WAS MUCH MORE ACTIVE, HOWEVER, AND PRICES WEAKENED. INTEREST RATES CONTINUED TO DECLINE IN VERY LIQUID MONEY AND CAPITAL MARKETS. STATEMENTS BY SWISS NATIONAL BANK (SNB) PRESIDENT LEUTWILER, FINANCE MINISTER CHEVALLAZ, AND ECONOMICS MINISTER BRUGGER

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ALL SHOW THAT THE GOS STILL CONSIDERS THE FIGHT AGAINST

INFLATION AS A PRIMARY GOAL OF ECONOMIC POLICY. A FORECAST BY THE UNIVERSITY OF LAUSANNE PREDICTS THE BEGINNING OF SWISS ECONOMIC RECOVERY IN 1976 AND VIGOROUS EXPANSION IN 1977. SWITZERLAND'S TRADITIONAL MERCHANDISE TRADE DEFICIT WITH THE WORLD CONTRACTED SHARPLY IN 1975, WHILE THE DEFICIT WITH THE US GREW.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: THE ZURICH FOREIGN EXCHANGE MARKET WAS RELATIVELY QUIET THIS WEEK; AN UPWARD TREND IN THE DOLLAR WAS CUT SHORT, HOWEVER, WHEN THE FRENCH NATIONAL BANK BEGAN SELLING DOLLARS. THE CLOSING OF THE ITALIAN EXCHANGE MARKET HAD LITTLE IMPACT ON THE DOLLAR. THE GOLD MARKET, ON THE OTHER HAND, WAS VERY ACTIVE AND PRICES FELL TO A LOW OF \$124.00 AT MID-WEEK DUE TO WHAT ONE TRADER CALLED "PANIC SALES." BY THE END OF THE WEEK, HOWEVER, THE PANIC SEEMED TO HAVE SUBSIDED AND PRICES RECOVERED SOMEWHAT. RATES AS FOLLOWS:

| | 1/19 (OPEN) | 1/23 (CLOSE) |
|-------------------------------|-------------|--------------|
| SPOT DOLLAR | SF 2.5940 | SF 2.6040 |
| FORWARD DISCOUNTS (PCT. P.A.) | | |
| ONE MONTH | - 4.9 | -4.7 |
| 2 MONTHS | - 4.4 | -4.6 |
| 3 MONTHS | -4.0 | -4.2 |
| 6 MONTHS | -3.6 | -3.6 |
| 12 MONTHS | -3.3 | -3.4 |
| SF/DM | SF 99.90 | SF 99.98 |
| GOLD | \$ 129.25 | \$ 128.50 |

3. MONEY AND CAPITAL MARKETS: BOTH MARKETS ARE STILL VERY LIQUID; THE CALL MONEY RATE WAS UNCHANGED AT 0.25 PERCENT ALL WEEK AND THE SNB CUT ITS SPECIAL DISCOUNT RATE ON COMPULSORY STOCKPILING BILLS FROM 3.0 TO 2.75 PERCENT ON BILLS TO FINANCE FOODSTOCKS AND FROM 3.25 TO 3.0 PERCENT FOR OTHER COMMODITIES. GIVEN THE EASY CONDITIONS IN THE SWISS CAPITAL MARKET, THE FEDERAL COMMISSION RESPONSIBLE FOR REGULATING NEW DOMESTIC

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BOND ISSUES HAS APPROVED ALL APPLICATIONS SUBMITTED FOR THE FIRST QUARTER OF 1976. THE TOTAL VOLUME OF NEW ISSUED IN THIS PERIOD WILL BE SF 2,382 MILLION. THE SNB HAS ANNOUNCED THAT THE CEILING ON NEW FOREIGN BOND ISSUES IN JANUARY-FEBRUARY 1976 WILL BE THE SMAE AS THE NOVEMBER-DECEMBER LIMIT OF SF 400 MILLION. THE CONFEDERATION'S NEW BOND ISSUS OF SF 700 MILLION WAS HEAVILY OVERSUBSCRIBED. INVESTORS FOUND THIS ISSUE'S

COUPON OF 6.25 PERCENT VERY ATTRACTIVE IN LIGHT OF OTHER RETURNS AVAILABLE IN THE SWISS CAPITAL MARKET. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS FELL FROM 5.61 PERCENT LAST FRIDAY TO 5.38 PERCENT ON JANUARY 23. AFTER FOUR WEEKS OF STEADY GAINS, SWISS STOCK PRICES PEAKED THEN EASED LOWER THIS WEEK AS THE SKA INDEX ROSE TO 206.7 (END 1959 EQUALS 100) ON JANUARY 20 THEN DROPPED TO 203.0 ON JANUARY 23.

4. SPEECH BY SNB PRESIDENT: SPEAKING BEFORE A GROUP OF ECONOMISTS IN BASEL, SNB PRESIDENT FRITZ LEUTWILER SAID THE 6 PERCENT GROWTH TARGET FOR THE MONEY SUPPLY (M1) IN 1976 IS A COMPROMISE BETWEEN AN EASY MONETARY POLICY TO COUNTER RECESSION AND UNEMPLOYMENT AND A STRICT, ANTI-INFLATION POLICY. THIS TARGET IS UNDER CONSTANT REEXAMINATION, HOWEVER, AND WILL BE ADJUSTED UPWARD OR DOWNWARD TO TAKE ACCOUNT OF CHANGES IN THE ECONOMY. WITH REGARD TO ITS ROLE IN HELPING TO FINANCE GOVERNMENT PROGRAMS, LEUTWILER STATED THAT THE SNB HAS A CORRESPONDING DUTY TO POINT OUT THE CONSEQUENCES OF EXCESSIVE PUBLIC SECTOR DEFICIT SPENDING ON INTEREST RATES, INFLATION, AND EXCHANGE RATES. LEUTWILER WARNED THAT AN EXCESSIVE EXPANSION OF THE MONEY SUPPLY WOULD UNDERMINE THE PROGRESS ALREADY MADE IN SLOWING THE RATE OF INFLATION; STIMULATION OF ECONOMIC ACTIVITY MUST NOT BE ALLOWED TO REKINDLE INFLATION. SNB INTERVENTION IN THE FOREIGN EXCHANGE MARKET IN 1975 TOTALED ABOUT SF 11 BILLION (\$4.3 BILLION AT AN AVERAGE EXCHANGE RATE OF SF 2.58 PER DOLLAR), OF WHICH SF 9 BILLION (\$3.5 BILLION) WERE OFFSET BY THE REQUIRED CONVERSION OF CAPITAL EXPORTS. IN THE FIRST WORKING WEEK OF 1976, HOWEVER, THE SNB'S FOREIGN EXCHANGE PURCHASES TOTALED SF 1.1 BILLION (\$423 BILLION). LEUTWILER INDICATED THE SNB COULD

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NOT CONTINUE INTERVENTION ON THIS SCALE FOR VERY LONG; THE LIQUIDITY CREATED IN THIS ONE WEEK WAS EQUIVALENT TO TWO-THIRDS OF THE GROWTH TARGET SET FOR THE WHOLE YEAR. HE STATED THAT INTERVENTION AND OFFSETTING CAPITAL EXPORTS ARE NOT A PERMANENT SOLUTION TO SWITZERLAND'S EXCHANGE RATE PROBLEMS. THE SNB NEEDS MORE INFORMATION ABOUT FOREIGN EXCHANGE TRANSACTIONS AND PLANS TO LOOK INTO FOREIGN EXCHANGE DEALS CONDUCTED BY SWISS BANKS ABROAD AND THE

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SS-15 STR-04 CEA-01 PA-02 PRS-01 /113 W

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R 271126Z JAN 76

FM AMEMBASSY BERN

TO SECSTATE WASHDC 2046

INFO AMEMBASSY BONN

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REPATRIATION OF FUNDS BY SWISS MULTINATIONAL COMPANIES.
ACCORDING TO LEUTWILER, THE RESULTS OF THE IMF MEETING
IN JAMAICA WILL NOT ALLEVIATE SWITZERLAND'S EXCHANGE
RATE PROBLEM EITHER; THE CONCLUSIONS REACHED IN JAMAICA
ON THE FUTURE OF THE INTERNATIONAL MONETARY SYSTEM ARE
MORE PHILOSOPHICAL THAN ANYTHING ELSE. THE SNB, HOWEVER,
IS PREPARED TO JOIN IN A COORDINATED EFFORT BY THE MAJOR
CENTRAL BANKS TO MAINTAIN ORDERLY CONDITIONS IN BOTH THE
FOREIGN EXCHANGE AND GOLD MARKETS. LEUTWILER WARNED THAT
THE INCREASE IN CREDIT FACILITIES FOR DEVELOPING COUNTRIES
RISKS AN EXCESSIVE EXPANSION OF INTERNATIONAL LIQUIDITY,
WITH A WORLD-WIDE EXCALATION OF INFLATIONARY PRESSURES.
IN THE LONG RUN THIS WILL CREATE EVEN MORE DIFFICULTIES
FOR LDCS HE SAID.

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ECONOMIC

5. ECONOMIC FORECAST: IN A BULLETIN PUBLISHED THIS WEEK, THE UNIVERSITY OF LAUSANNE PREDICTS THAT 1976 WILL SEE THE END OF SWITZERLAND'S RECESSION AND 1977 WILL BE A YEAR OF VIGOROUS RECOVERY. ASSUMING A MARKED INCREASE IN BUSINESS ACTIVITY IN THE MAJOR COUNTRIES OF THE WORLD THIS YEAR, THE UNIVERSITY SAYS RISING EXPORTS AND HIGHER PUBLIC SECTOR SPENDING WILL GENERATE AN ECONOMIC UPTURN IN SWITZERLAND SOMETIME IN THE LATTER PART OF 1976. DURING THE YEAR, HOWEVER, PRIVATE CONSUMPTION AND INVESTMENT WILL STAGNATE AND UNEMPLOYMENT WILL CONTINUE TO GROW. REAL GNP COULD EXPAND BY AS MUCH AS 2 PERCENT IN 1976, AND INFLATION SHOULD AVERAGE 3 TO 4 PERCENT. THE UNIVERSTIY, WHICH HAS DEVELOPED ITS OWN ECONOMETRIC MODEL OF THE SWISS ECONOMY, SAYS THAT ALL ECONOMIC INDICATORS SHOULD BEGIN MOVING RAPIDLY UPWARD IN 1977.

6. ECONOMIC POLICY: IN AN INTERVIEW PUBLISHED IN THE SWISS VOLKSBANK'S MONTHLY BULLETIN, FINANCE MINISTER GEORGE-ANDRE CHEVALLAZ SAID THAT THE MAJOR OBJECTIVE OF CONFEDERATION ECONOMIC POLICIES IN 1976 WOULD BE TO IMPROVE THE COMPETITIVENESS OF SWISS PRODUCTS IN WORLD MARKETS. TO DO THIS THE SWISS HOPE TO HOLD DOWN THE APPRECIATION OF THE SF BY SNB INTERVENTION, BY THE CONTROL OF CAPITAL FLOWS, AND THROUGH INTERNATIONAL COOPERATION IN STABILIZING EXCHANGE MARKETS. OTHER MEASURES TO HELP EXPORTS INCLUDE: A) A CONTINUATION OF THE FIGHT AGAINST INFLATION, PRINCIPALLY BY HOLDING DOWN THE GROWTH OF GOVERNMENT EXPENDITURES; B) INCREASED GOVERNMENT FUNDED RESEARCH TO IMPROVE OLD PRODUCTS AND DEVELOP NEW ONES; C) IMPROVE THE AVAILABILITY OF CREDIT FOR REORGANIZATION OF NONCOMPETITIVE FIRMS AND FOR PRODUCT IMPROVEMENT; D) MORE INVESTMENT IN THE EDUCATION OF THE SWISS LABOR FORCE; E) AN EXPANSION OF THE EXPORT RISK GUARANTEE PROGRAM; AND F) GREATER PROMOTION ABORAD OF SWISS PRODUCTS AND OF TOURISM TO SWITZERLAND. IN A RECENT SPEECH, ECONOMIC MINISTER ERNST BRUGGER INDICATED THE GOVERNMENT IS GIVING INCREASING ATTENTION TO THE PROBLEM OF UNEMPLOYMENT. IN ADDITION TO THE LATEST ANTI-RECESSION UNCLASSIFIED

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PROGRAM ANNOUNCED LAST WEEK (SEE BERN 0267) , BRUGGER SAID ADDITIONAL WORK CREATING PROJECTS WERE IN PREPARATION FOR IMPLEMENTATION IF NECESSARY. THE MINISTER ADDED, HOWEVER, THAT THERE WERE LIMITS TO HOW MUCH THE GOVERNMENT COULD STIMULATE THE ECONOMY WITHOUT ADDING TO INFLATIONARY PRESSURES; THE FIGHT AGAINST INFLATION IS STILL OF PRIMARY IMPORTANCE.

7. CAR SALES; IN 1975 AT TOTAL OF 183,401 AUTOMOBILES

WERE SOLD IN SWITZERLAND. THIS IS A DROP OF 8.6 PERCENT FROM 1974 AND 22.0 PERCENT LESS THAN WERE SOLD IN 1973.

8. CHEMICAL INDUSTRY: IN COMPARISON WITH 1974, SWISS CHEMICAL PRODUCTION DECLINED 18.0 PERCENT IN 1975. THE TOTAL VALUE OF EXPORTS FELL 10.7 PERCENT AND EMPLOYMENT IN THE CHEMICAL INDUSTRY WAS DOWN 3.5 PERCENT.

9. FOREIGN TRADE: SWITZERLAND'S MERCHANDISE TRADE IN DECEMBER REGISTERED SURPLUSES WITH BOTH THE WORLD AND THE US. DURING THE MONTH IMPORTS ROSE WHILE EXPORTS CONTINUED TO FALL. THE SURPLUS IN WORLD TRADE WAS SF 237 MILLION, A CONSIDERABLE IMPROVEMENT OVER THE SF 303 DEFICIT IN DECEMBER 1974. IN TRADE WITH THE US, THE DECEMBER SURPLUS WAS SF 8 MILLION, OR ABOUT HALF THE SURPLUS RECORDED A YEAR EARLIER. FOR 1975 AS A WHOLE, IMPORTS DROPPED MUCH MORE THAN EXPORTS, AND SWITZERLAND'S TRADITIONAL TRADE DEFICIT CONTRACTED FROM SF 7.6 BILLION IN 1974 TO SF 838 MILLION. THE SWISS TRADE DEFICIT WITH THE US, HOWEVER, GREW FROM SF 305 MILLION IN 1974 TO SF 452 MILLION IN 1975. THE US SHARE OF SWISS IMPORTS FOR THE YEAR WAS 7.5 PERCENT, UP FROM 6.5 DURING THE PREVIOUS YEAR. TRADE FIGURES ARE SHOWN BELOW:

| | WORLD | US |
|--|----------------|---------------|
| MILLION SF (PCT. CHANGE OVER SAME PERIOD 1974) | | |
| DECEMBER | | |
| IMPORTS | 2,837 (-10.3) | 205 (-23.1) |
| EXPORTS | 3,074 (UP 7.6) | 213 (UP 14.4) |

| | | |
|-----------|----------------|---------------|
| JAN.-DEC. | | |
| IMPORTS | 34,268 (-20.2) | 2,587(-7.8) |
| EXPORTS | 33,430 (-5.4) | 2,135(-14.7). |

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL DATA, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760031-0531
From: BERN
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1976/newtext/t19760120/aaaaaqnd.tel
Line Count: 317
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: hattaycs
Review Comment: n/a
Review Content Flags:
Review Date: 29 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 JUN 2004 by schwenja>; APPROVED <28 JUL 2004 by hattaycs>
Review Markings:

Margaret P. Grafeld
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US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF JANUARY 18-24
TAGS: EFIN, ECON, SZ
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006